

# Post-election UK trade policy roundtables

## Discussion Note Series

2024

### CITP Trade Roundtables

The new UK Government, elected in June 2024, has promised to produce both an industrial strategy and, closely connected, a trade strategy. From late September to early December, the CITP convened a series of roundtables with various partners – Chatham House, The CBI, Resolution Foundation, and Fieldfisher LLP – each aimed at specific issues or an area of policy the new trade strategy will need to address.

Each roundtable convened a high-level discussion between policymakers from the UK and beyond, business representatives, experts and academics to identify core challenges and policy recommendations in each topic area. Each event was held under the [Chatham House Rule](#). This document provides the Discussion Notes from each roundtable: a) trade and economic security; (b) trade policymaking within the UK; (c) Services trade and priorities for future negotiations; (d) SME's, export support and UK competitiveness; (e) agriculture, environment and food standards and f) a UK-EU reset.

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## Trade wars, the transformation of trade policy, and the UK response

26 September 2024

### Background

Government intervention in trade and industrial policy is on the rise worldwide. This is being driven by a mix of geopolitical and environmental concerns, be this with regard to rapidly changing technology, or worker and human rights. An oft-cited justification for intervention is 'economic security'. A particular concern is China, and for example, since 2018, the U.S. has imposed a variety of tariffs primarily on Chinese imports, as part of its reshoring strategy. Similarly, the EU, through its new decarbonisation strategy, has imposed tariffs on Chinese-manufactured electric vehicles (EVs) following an investigation into unfair subsidies provided by the Chinese Government. This was done to stimulate domestic production and reduce dependence on low-cost Chinese imports.

In the face of concerns about 'economic security' - be this, for example, to do with technology or economic coercion - this roundtable set out to consider the issues and options for UK trade policy in responding to these developments.

The discussion was wide-ranging, yet, certain themes clearly emerged. This summary is not intended to suggest that there was a consensus of view, but provides an overview of the key issues raised, some large unanswered questions, and possible recommendations for inclusion in the UK Government's forthcoming trade strategy.

## Definitional challenges

There is no agreed definition of economic security. The term is used in different ways, to justify different actions and for different reasons across countries. On the one hand, it can be used as a justification for disguised protectionism and as a means of supporting domestic industries (for good or bad reasons); and on the other hand, to protect a national security interest eg. in critical technologies. As one participant commented – politically this makes it a great catchphrase, but also makes it easy to justify in various ways, and in turn makes it difficult to manage and contain.

Participants identified the desirability for coordination/collaboration across countries to understand and define economic security, as well as acceptable policy interventions. However, differences in countries' perceived national imperatives and the use of the term in practice and its overlap, and at times conflation, with consideration of national security make this very difficult. There was some scepticism as to whether substantive collaboration was indeed possible.

The UK has yet to clearly define its approach to economic security broadly and with China which is its fifth-largest trading partner. Nevertheless, defining the boundaries of what constitutes 'economic security', and thus where intervention may be justified, even if only at the national (UK) level was deemed important.

## The external dimension

One of the factors driving economic security concerns is the growing importance of China in the world economy, growing dependence on Chinese products, coupled with rising tensions between China and partner countries - notably the US - and in turn the policy responses by the US and the EU. However, it was also noted that fears of a new Cold War, this time with China, may well be exaggerated, considering that China is a trading partner to around 120 countries and a significant partner for many of these. Decoupling is thus not realistic.

In the face of this, there was substantial discussion on how the UK can interact with partner countries in framing its trade policy around economic security. This led to several areas of discussion:

While cooperation on economic security is needed, there is a paradox that economic security policies are typically there to defend against / protect against / respond to the policies of other countries – be this the US (eg. the Inflation Reduction Act) or China (unfair competition). This raises complex questions as to economic security against who, and how collaboration can be achieved in a context of rivalry.

Is there a possibility of cooperation on trade and economic security between the UK and the US? To some degree, there is uncertainty in this regard given the forthcoming US election. Nevertheless, it was clear that whatever the outcome of the election the broad negative approach of the US to free trade agreements is unlikely to change. With the forthcoming U.S. presidential election, trade policies are being shaped by what resonates with voters. Those domestic political constraints evince a lack of support if not antipathy towards trade among core US voters. At the same time, the U.S. is moving away from the use of conventional trade policy tools in addressing challenges such as competitiveness, climate change, or human rights. There may be some scope for closer cooperation between the UK and the US on specific

areas of policy (such as competition policy, digital trade, or climate policy), and it was suggested these may be more likely in the event of a Harris administration.

The topic of UK relations with ‘like-minded’ countries, and other middle powers centred on the resetting of relations between the UK and the EU. Much of the current debate amongst commentators on the UK-EU reset is focussed on how to improve bilateral relations such as having a veterinary agreement. In contrast, the discussion at this roundtable was more on the wider benefits of a UK-EU reset, suggesting that one of the gains for both the UK and the EU in improving relations could lead to working together on common positions where their approaches are probably already closely aligned, such as economic security, and to provide balance in international fora, such as the G7, and thus in relations with third countries.

It was felt that as a major trading economy, with an independent trade policy, there is the potential for the UK to play a more significant role in the international economic order. In particular, several participants identified how the UK could play a coordinating role with like-minded countries such as Canada, Australia or Japan to reinforce a liberal world order and tackle pressing issues such as economic security, climate change and human rights. The point was made that the ability to influence policy will be much greater if countries work together as opposed to unilaterally.

Economic insecurity stems from rivalry for dominance / hegemonic power. The threat to the hegemon (the US), risks the hegemon behaving in ways that make international cooperation more difficult. This makes it more critical for other countries to identify and address supply chain vulnerabilities through soft law and international frameworks. This is where institutions like the World Trade Organization (WTO) could play a role in mitigating these risks. However, the WTO has been criticized for its inefficiencies, particularly by the U.S. and other countries that view it as outdated and inadequate. Some nations, including China, are accused of skirting WTO rules through state-owned enterprises, product dumping, and intellectual property theft. There were concerns regarding the limitations of the existing economic toolkit (such as trade defence instruments) for dealing with the issue of economic security.

For some, the World Trade Organisation rule book does not appear well suited for dealing with the types of policy interventions being used. This raises the challenge of how to widen the scope of intervention without abandoning the existing rules-based system, while also suggesting the need for new disciplines, notably on state-owned enterprises and subsidies.

### **The internal dimension**

Leaving aside the issue of how to cooperate with third countries on economic security, the UK needs to make decisions on its own domestic policy actions. Several participants stressed that policy on economic security should in the first instance be driven by domestic priorities and objectives. Traditionally, the objectives and justifications for policy intervention by governments have been to improve economic efficiency or to address distributional issues, such as issues of equity, within a country. In recent years, and with growing interdependence between countries, the dimension of economic security has become just as important. Interestingly, without much stretch, this can be seen to be reflected in the mission letter for the new EU Commissioner for Trade and Economic Security (note the addition of ‘economic security’ to the designation) which identifies the objectives of policy being that of competitiveness (which is ultimately to do with efficiency), sustainability (which is a form of equity), and security.

For the UK, the current principal aim of economic policy, as frequently articulated by the new government is to raise productivity, economic growth and competitiveness – hence there appears to be more of an emphasis on the efficiency objective. One approach or suggestion would be to identify the technologies and/or sectors which are seen to be critical for economic growth, and then consider how vulnerable these may be from an economic security perspective. What are the risks of disruption, are there policy interventions that can mitigate those risks, whether or not there are market failures that need addressing, and thus whether and what forms of intervention may be desirable?

Self-reliance is clearly infeasible if not very costly in many circumstances, yet interdependence brings with it risks. Hence there was some discussion regarding the need for clarity about the forms of interdependence with other countries, and supply chains which are acceptable, the acceptable levels of risk, and what policies may be needed for risk mitigation. There may also be trade-offs between the objective of economic security and the objective of higher economic growth. Where this occurs, it raises questions as to how much economic security is to be valued over higher economic growth. What sacrifices in efficiency may be acceptable to move to a world which is more economically secure? What sort of state of globalisation might this lead to that is acceptable, and how does the UK get there?

Given China's dominance in critical raw materials, the UK is heavily dependent on it for a range of key supplies. To establish economic security, it is crucial for the UK to diversify its supply chains to mitigate the risk of disruptions that could threaten national security. Stable trade flows are essential for the UK as it charts an independent path post-Brexit. Participants emphasised that businesses must also be incentivised to ensure that economic security leads to substantial outcomes, and thus that policy interventions need to align with business incentives, whilst recognising that typically businesses prefer carrots to sticks.

An example cited was the U.S. Inflation Reduction Act, which offers subsidies and other incentives to businesses if their products are not sourced from China, but rather from the U.S. or other countries with which the U.S. has free trade agreements (FTAs). This approach underscores the importance of reducing reliance on singular trade partners, especially for critical resources, while fostering trade with trusted allies.

The discussion also identified the need for the UK to diversify its supply chains to guard against future vulnerabilities and shocks, and part of this should involve building alliances with the Global South. There was acknowledgement among participants that the UK's comparative advantages and the efficacy of its supportive institutions can be leveraged to nurture closer bilateral relations with countries and regions in the Global South. These partnerships, participants argued, would not only serve to diversify the UK's trade relationships but also offer a more resilient and sustainable trade model, particularly in times of global uncertainty.

As the UK navigates its newfound autonomy, it must carefully assess the risks and determine appropriate actions, considering the current geopolitical context and its implications for economic security. A key question remains: What does economic security mean for the UK? Can the UK afford reshoring and self-sufficiency like the U.S., or is it more essential to ensure stable trade flows?

## Other issues raised

- Economic security is about having good intelligence and intelligence sharing between countries on issues such as export controls and investment screening. The intelligence sharing needs to be expanded and institutionalised.
- Firms and industries are very adaptable and are good at adjusting to shocks. Therefore, just because there is a potential vulnerability, does not necessarily mean that policy intervention is needed as this may lead to unintended consequences which could impinge on economic security.
- Technological change and in particular AI and digital trade is leading to new forms of economic dependencies and thus vulnerabilities. This should not be underestimated.

## 10 Recommendations for the UK Government:

1. Provide a clear definition of economic security and a principles-based framework for considering the circumstances and actions governments might use to promote economic security. Consider the frameworks or structures used by other countries such as Australia or Japan. Ideally, the development of such a framework may be more credible and long-lasting if it is developed by an independent body outside of the politically determined processes.
2. Identify what policies the UK wants to introduce to support economic security and why and provide explanations.
3. Identify the sectors and/or technologies which are critical to economic growth and consider the vulnerabilities which may need addressing.
4. Ensure that there is a whole government approach and structure to economic security such that policy is coherent and there is appropriate oversight.
5. Long-term consistency in policy is important in appropriately incentivising business to respond to policy levers.
6. Work more closely with 'like-minded' middle-power countries in addressing the challenges of economic security and the rise in geopolitical and economic tension between the US and China. Identify specific areas of cooperation and work on these. In particular there is scope for closer cooperation and common positions on economic security with the EU, which also provides a way for rebuilding the UK-EU relationship.
7. Also explicitly consider how closer engagement with the Global South can both build frameworks for cooperation on economic security and improve supply chain diversification and resilience.
8. To work with the forthcoming new US administration to identify areas, such as climate, technology and economic security where closer cooperation may be possible on an issue-by-issue basis.
9. Unlike the US, the UK should avoid taking a hardline stance against Chinese imports and foreign direct investment (FDI). The UK can utilise tools like the National Security and Investment Act to screen Chinese FDI, as it did with the ban on Chinese-owned Huawei products over national security concerns. The UK can continue trading in non-sensitive goods while striking a balance between protectionism and pragmatism, recognising that full decoupling from China, as the U.S. attempts, may only exacerbate the challenges in the world economy.

10. The UK Government should explore options for supporting WTO reform to make it more relevant for current economic security challenges.
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## **Inclusivity in UK trade policymaking? Process, Consultations and Devolved administrations**

*3 October 2024*

### **Background**

The aim of this roundtable was to provide a space to discuss inclusivity in UK trade policymaking formulation with a wide range of stakeholders. The term inclusivity, in this context, relates to the question of whether the processes that underpin the development, adoption and formulation of UK trade policy and law (e.g., unilateral trade measures and trade agreements) enable actors outside of the central government machinery to have a say in shaping trade policy. This includes public authorities, such as devolved and local/regional authorities, as well as stakeholders and civil society actors.

Inclusivity in trade policy formulation is particularly important in the post-Brexit context. The UK's withdrawal from the European Union and the resulting repatriation of trade policy powers presented the UK with a unique opportunity to design a trade policy and law framework which would more accurately reflect the UK's specific economic, social and value preferences. Putting in place systems that enable stakeholders from across the country to feed into the process of trade policy formulation would be one way of ensuring UK trade policy represents the views and interests of the UK as a whole.

Five years post-Brexit and with a new government, it is time to take stock of how inclusive the new UK trade policymaking apparatus is. While existing institutional machinery does offer routes for inclusivity through consultation, trade policy formulation remains a highly centralised decision-making process. Moreover, capacity issues, effective information sharing, and transparency issues often limit the channels through which the devolved administrations can actively engage with Whitehall. Finally, the existing mechanism for parliamentary scrutiny, which is governed by the Constitutional Reform and Governance Act, is also seen by many as being a blunt tool for democratic scrutiny of trade agreements. The roundtable discussed whether reform is needed and if so what types of reforms should be envisaged.

### **Information sharing**

A key element of inclusivity in policymaking is ensuring transparency by allowing for the free flow of information across various levels of institutional structures. Some participants indicated that this was particularly problematic in the context of the negotiation of UK post-Brexit trade agreements. It was suggested that current mechanisms for communication between the UK central government, devolved governments and related stakeholders often falls short. Stakeholders do not have timely access to pertinent information relating to trade policy. This shortcoming makes it difficult for them to participate meaningfully in trade discussions. As a result, they frequently lack the background knowledge required to offer informed and meaningful feedback.

Participants also highlighted that transparency in the context of trade agreements is not limited to the negotiation and conclusion of such agreements. Territorial impact analyses, for example, are an essential element of efficient information exchange. These analyses provide important information on how particular industries and regions may be impacted differently by trade agreements. Some participants pointed out that these reports are often not distributed promptly to relevant stakeholders by the UK government. The upshot is that devolved governments and CSOs are less able to respond effectively since they are unable to analyse the possible effects of trade agreements on their communities.

Some participants pointed to the active participation of provincial governments in trade negotiations in Canada as a good illustration of efficient information exchange in this area. During the negotiations of the Canada- European Union Comprehensive Economic and Trade Agreement (CETA), provincial administrations had a direct role to play in the negotiations by “being at the table”. Provincial concerns were factored in while negotiating sensitive sectors such as services, labour mobility, investment and government procurement, which produced a model of trade policy that was representative. While several scholars note that the Canadian example has been a distinct case, given its particularly constitutional framework and the fact that its counterpart in these negotiations – the EU – pushed for the participation of provinces in negotiations, it has been portrayed by some as a “paragon of subnational involvement”. This case highlights the conditions that create a conducive environment to promote a bottom-up strategy that accounts for local viewpoints. When information dissemination across various levels of government is sufficient, opportunities where diverse voices remain undermined can be avoided.

A secondary problem relating to information sharing is the politicisation of “sensitive information”. Concerns about national security, potential leaks of confidentially shared information as well as the fear that the release of negotiating positions may lead to a public backlash can make the central government adopt very secretive stances in the context of trade negotiations. This approach may hinder stakeholders' capacity to participate positively by fostering an atmosphere of uncertainty. Furthermore, the flow of information between central government and stakeholders can often be heavily influenced by political relationships (e.g., to what extent is the central government politically aligned with a devolved government). These political considerations have important ramifications. Because a lack of transparency might raise questions about the government's commitment to inclusivity, they create an atmosphere of mistrust among stakeholders. Stakeholders lose faith in the trade policy process and may stop participating entirely if they believe that information is being hidden for political purposes.

### **Parliamentary scrutiny mechanism**

It is paramount to ensure that the decision-making processes underpinning the negotiation of trade agreements are inclusive and representative. Currently, the decision-making processes governing the negotiation and conclusion of UK trade agreements are dominated by the executive. Some participants indicated that the UK parliament does not have a formally recognised role to debate, discuss, rework and then vote upon an agreement before ratification. Similarly, it was pointed out that devolved governments and legislatures have minimal involvement in treaty processes, despite being bound by these treaties and often responsible for their implementation. This indicates that the processes contributing to trade policymaking need to be more inclusive and representative than is currently the case.



Parliamentary scrutiny under the Constitutional Reform and Governance Act 2010 (CRAG) offers very limited time for the House of Commons to effectively recommend changes to the text of trade agreements. Under the CRAG, only the text of signed international treaties is subject to ratification. Other supporting documents that inform the negotiation process such as impact assessments, memoranda of understanding (MoUs), annexes and schedule documents are overlooked in the scrutiny process prior to ratification. Further, under CRAG, the UK parliament's role is limited to a binary choice: ratify the agreement in full or delay ratification. Without the power to recommend amendments, the parliament's role in trade policymaking is limited, both in breadth and depth. It is worth noting, however, that some participants were sceptical about the need for reforms. It was argued that, so far, there have not been significant complaints from members of parliament regarding the operation of the CRAG, nor had there been any clear attempts to use the CRAG safeguards to scrutinise trade agreements.

A secondary mode for parliamentary participation in treaty making is through the International Agreements Committees (IAC) approved by the House of Lords. These committees assess the implications of agreements and may hold hearings or request additional information to gather evidence by releasing calls for inquiry. The end of the specialised International Trade Select Committee presented a wider opportunity for increased parliamentary involvement in trade policymaking through the Business and Trade Committee in the House of Commons. Nevertheless, their recommendations are not always acted upon, leading to a disconnect between parliamentary intentions and government actions. This disconnect often results in a lack of accountability, with treaties being ratified without sufficient oversight or opportunity for amendment. The 21-day period for ratification for trade treaties in Parliament is grossly insufficient for launching calls for inquiry, leading to inadequate oversight.

Another concern participants discussed was the limited involvement of members of parliament in trade debates. This could either be due to the perception that their input will be ignored by the government or the government's belief that trade issues are not priorities for MPs. Reduced parliamentary involvement on important trade issues has resulted from this pattern of low engagement, which has weakened the diversity of viewpoints in policy discussions. To address this, the central government needs to proactively emphasise the value of MPs' contributions to trade policy. By making consistent and transparent invitations for MPs to engage, the government can help build trust and signal a shift from the exclusionary approaches.

### **Capacity gap**

Trade agreements today have evolved in complexity often requiring technical knowledge across several sectors. Expertise is required across multiple dimensions including economic, legal, environmental, cultural and political fronts to ensure trade policy outcomes are holistically delivered. Post-Brexit the UK is experiencing limited availability of resources dedicated to managing the UK's trade affairs. It's exit from the European Union meant limits on staff mobility, access to varied funding opportunities for NGOs, as well as access to policy advocacy networks. While recruitment in Whitehall has eased some of these gaps for the UK Government, capacity issues remain and are a critical barrier to inclusivity.

Several stakeholders, particularly the devolved governments and civil society organisations (CSOs), lack the required expertise, personnel and infrastructure to deal with issues pertaining to international trade policy and its domestic impacts. Although devolved governments are obligated by trade agreements and are responsible for implementing them, they frequently lack



the resources or specialised knowledge required to thoroughly evaluate and respond to these intricate agreements.

Many CSOs—especially smaller ones, particularly so in the devolved administrations—lack the resources, personnel, and knowledge necessary to focus exclusively on trade policy. They frequently find it difficult to keep up with the pace of trade negotiations, which prevents them from actively participating in consultations or having an impact on choices that could have a big effect on the communities they represent. Their inability to perform in-depth research, attend meetings, and interact equally with government stakeholders is further hampered by their limited capacity. In addition, there are difficulties with the engagement process itself. Due dates for feedback submissions and consultation responses are frequently shortened, giving stakeholders minimal time to compile pertinent data, formulate well-informed opinions, and present them to the central government. The issue is worsened by the time constraints and resource scarcity, which results in lost chances to get feedback from CSOs and devolved governments.

### **Utilising existing mechanisms**

The UK's exit from the European Union prompted the creation or broader relevance of mechanisms intended to involve the devolved governments in policymaking. These channels include the new structure for Intergovernmental Relations, the Constitutional Reform and Governance Act (CRAG), the possibility for exemptions for devolved in the UK Internal Market Act and the Common Frameworks Approach. Participants expressed that these mechanisms have yet to be completely utilized, limiting the realisation of their full potential... as well as the evaluation of their limits and need for further reform.

### **Recommendations**

1. Further research is needed to understand the reason for currently limited parliamentary involvement in the Treaty scrutiny process. It is key to comprehend if the lack of involvement is due to existing legal structures that discourage participation or due to a lack of willingness by Members of Parliament.
2. All parties need to give further consideration to ensure transparency between the devolved and central governments and legislatures. This includes reviewing the existing processes that enables information dissemination on trade policy.
3. Devolved governments can enhance the legitimacy and effectiveness of their engagement with central government when they evaluate the anticipated trade effects of international trade agreements. This can be achieved by systematically conducting territorial impact assessments and evaluating the impact of government strategies on region-specific social issues such as environment and labour.
4. Detailed agendas for civil society engagement should be shared in sufficient time ahead of consultation meetings. This allows civil society organisations to overcome existing capacity issues and ensure organisations can effectively engage with the agenda by presenting detailed findings.
5. Co-chairs from civil societies for consultation roundtables should be encouraged. This allows greater opportunity for fair representation at stakeholder meetings and can help overcome inherent organisational biases.

# Services trade and priorities for future negotiations

15 October 2024

## Background

The UK is primarily a services economy, which accounts for 81% of economic output (Gross Value Added) and 83% of employment. The environment surrounding UK services is rapidly changing. Emerging technologies are driving the digitisation of trade, making almost 80% of the UK's exports potentially digitally deliverable. Artificial Intelligence (AI) is shaping many aspects of service industries, from employment to supply chains. At the international level, global policies and regulations relating to climate change, national security concerns, and other non-trade objectives are impacting on both the manufacturing and services sectors. Furthermore, domestically, while the London-centred services ecosystem has a strong comparative advantage in producing and trading services, there is an issue of geographic imbalances within the UK.

From a trade policy perspective, the post-Brexit services trade arrangements with the EU under the UK-EU Trade and Cooperation Agreement (TCA) created new barriers for businesses compared to Single Market access. The UK has concluded about 40 trade agreements,<sup>1</sup> some of them include innovative digital trade chapters, others are a new form of Digital Economy Agreement, such as the one with Singapore. However, at the multilateral level, little progress has been made since the General Agreement in Trade in Services (GATS) was created in 1995.

Against this background, the roundtable discussed priorities for the new UK Government's services trade policy and negotiations at the bilateral, plurilateral and multilateral levels. The discussion was wide-ranging, yet certain themes clearly emerged. This summary is not intended to suggest that there was a consensus of views but instead provides an overview of the key issues raised, some important unanswered questions, and possible recommendations for inclusion in the UK Government's forthcoming trade strategy.

## Overview of UK services trade

One participant explained that similarly to the OECD as a whole, UK services exports have risen more sharply than goods exports since the Covid-19 pandemic. Between 2019 and 2022, the primary driver of the increase in UK services exports was the growth in international demand, as opposed to changes in the structure of UK exports. There is some evidence that the UK's comparative advantage over the last decade has been high and growing in international business services, and growing also in intellectual property services, while declining in telecommunications, and in more recent years in financial services.

The way in which services are being traded internationally, and not just by the UK, appears to be changing. This phenomenon is sometimes described as "mode switching"<sup>2</sup>. This enables more services to be delivered electronically (Mode 1) as opposed to other modes of supply, e.g. through commercial presence (Mode 3) or the movement of natural persons as service

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<sup>1</sup> [UK trade agreements in effect - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/collections/uk-trade-agreements-in-effect)

<sup>2</sup> General Agreements in Services Trade (GATS) covers four services definitions of modes of supply: (i) Cross-border supply (mode 1), consumption abroad (mode 2), commercial presence (mode 3), and temporally movement of natural persons (mode 4). "Mode switching" means that services suppliers change a mode of services supply responding to changes in business environment. For example, a firm which used to invest abroad and supply services from a commercial presence there (mode 3) switches to exporting services from the UK to abroad (mode 1).

suppliers (Mode 4). Factors such as digitalisation, remote working regulations, or firms' decisions to avoid higher trade barriers have contributed to this trend.

UK services exports to the EU now rely more both on Mode 1 but also Mode 3, as for some businesses, local establishment better suits the post-Brexit regulatory environment. There has also been some switch from mode 4 (temporary movement of natural persons) to Mode 1. Participants observed that the UK economy will continue reorienting in response to the UK-EU TCA and other trade policies. Some showed concern that a decline in services trade, particularly with the EU, is likely to happen in the near future. Participants shared the view that understanding the decisions taken by British firms in the new business environment is crucial for developing better policies.

The importance of attracting foreign direct investment by leveraging the UK's competitive advantage in services was discussed, as well as the challenges that leaving the EU has created in this regard. The point was made that services trade is enhanced by a clear legal framework that provides certainty for firms across sectors (financial, insurance, education, IT, professional services). One participant specifically highlighted the importance of the role of manufacturing firms as two-thirds of service exports from manufacturing firms involve foreign-owned companies. This highlights the crucial role of foreign direct investment in driving UK services trade.

### **The UK-EU relationship**

In addition to the issues outlined above with regard to mode-switching, the discussion noted that while the UK holds a comparative advantage in high-skill services, stricter migration policies for highly skilled workers may negatively affect services, especially those in the category of "Other Business Services", the largest UK services export item. Additionally, leaving the EU has reduced European demand for UK education services, which could potentially influence the highly skilled labour market and affect professional mobility. The UK-EU TCA contains a clause allowing for the negotiation of mutual recognition of professional qualifications between the two parties. In this context, one participant emphasised the importance of discussing more flexible labour mobility measures under the UK-EU TCA to strengthen the UK's comparative advantage in offering highly skilled services, especially in the professional services sector.

### **The benefits and limitations of Free Trade Agreements (FTAs)**

In general, FTAs have been beneficial for international trade even if they have not offered better market access conditions. As empirical research has demonstrated, FTAs have lock-in effects and eliminate uncertainty as signatories bind domestic regulations impacting on market access and the non-discrimination principle of national treatment.

However, one participant was concerned that exemptions in FTAs related to public policy, national security, and the financial sector (e.g. prudential carve-outs) limit the effectiveness of services trade liberalisation. Another participant noted that highly developed countries are introducing new regulations and regressing on services trade liberalisation while developing countries are still liberalising. Participants shared the view that a key challenge is evidencing to policymakers the benefits of liberalising services in an era of government intervention.

While there has been generically a shift towards mode 1 (cross-border trade), mode 3 (commercial presence) still plays a role. There are many investment-related regulations in

practice. These can diminish the effectiveness of FTAs. One participant addressed the issue of “liability mismatch”: Whereas corporate accountability is crucial, identifying to what extent stakeholders have responsibilities to meet governments’ regulatory requirements, such as digital trade related regulations, is challenging.

Some participants expressed the view that no substantial trade shift from the EU to non-EU trade partners is expected. Although the UK-India negotiations are ongoing, the UK services sector can probably expect little from it. The FTAs with countries like Switzerland, South Korea, and Turkey are also unlikely to have a major impact on UK services trade policy. Looking at UK-US relations, a future UK-US FTA appears extremely unlikely. FTAs with developing trade partners (for example: African countries) could be explored.

In order to liberalise services trade, it was suggested that other policy tools such as sectoral agreements could be more effective than FTAs. In addition, regulatory arrangements, such as Mutual Recognition Agreements (MRAs) with countries with similar regulatory practices (e.g. Australia and the US) could be explored. However, it was noted that promoting regulatory coherence/convergence differs across professions. For example, promoting MRAs for architects and for engineers may be easier than achieving the same for lawyers.

### **Data and digital trade**

Participants shared the view that designing data, digital trade, and artificial intelligence policy is becoming more important for services trade policy. One participant argued that the relation between free data flows and data localisation requirements, and requirements to access source code provisions will become increasingly important, in part because these measures have a big impact on businesses. The US Government has withdrawn its support for restricting the prohibition of data localisation and source code requirements at the World Trade Organization (WTO) Joint Statement Initiative on e-commerce negotiations. It is important to consider the implications this will have for the UK’s digital trade policy and future digital trade negotiations at the bilateral, plurilateral and multilateral levels.

Regarding the WTO Joint Statement Initiative negotiations on e-commerce, it was noted that while the agreement was ‘stabilised’, there is a lack of clarity on implementation, and there remain a number of unresolved issues. For example, a significant challenge remains in terms of the substance of the e-commerce agreement and implementation, as well as the complications arising from the US not joining the agreement. The US’s concerns - such as national security exemptions, free data flows and its relation with localisation requirements and source code requirements - are closely related to geopolitics. One possible way forward would be to discuss these issues in de-politicised environments outside of the WTO.

While extending the moratorium on imposing customs duties on electronic transmissions is extremely important for business, there was pessimism with regard to a long-term sustainable solution.

One participant expressed a concern that the 'EU AI Act,' which aims to establish a global standard for AI regulation, could deter new investors due to its stringent requirements. Another participant stressed the importance of policy instruments to promote interoperability outside trade agreements such as adequacy decisions on data privacy.

## **Impacts of national security/economic security policies**

Many participants expressed concerns that national security significantly impacts services trade policy. Protectionism and measures introduced on the grounds of national security concerns (e.g. the US's restrictions on hardware and automobiles) undermine liberalisation commitments under international agreements. One participant stressed the importance of discussing the relation between national/economic security and trade policy together with security experts as the trade policy circle and the national security/economic security circle are segmented and look at the issue from completely different policy objectives.

## **Challenges to empirical research**

Participants stressed that explaining the importance of creating a services trade strategy and negotiating priorities is difficult given that services trade is intangible, unlike goods trade. Limitations in data access and quality of data significantly impact the understanding of business priorities. This poses a major challenge for researchers and the civil service in their attempts to provide policy recommendations based on empirical research. Issues such as the difficulty in tracking labour productivity across the UK, challenges in analysing firm-level data on tax records and trade transactions, and the lack of more granular data on services exports are key concerns.

## **Recommendations for the UK Government**

1. Prioritise policies that promote productivity (growth) and investment in services sectors as these account for a large share of value added and employment. To this end, the new Government's industrial strategy should focus on key services sectors such as professional services and creative industries. Developing workforce skills is fundamental. The strategy should also consider the involvement of key stakeholders such as businesses that export services, potentially alongside manufacturing goods.
2. The regulatory environment should facilitate the private sector's optimal choice of services delivery, be that cross-border trade (Mode 1), local establishment (Mode 3), mobility of service professionals (Mode 4), or a preferred combination of these modes.
3. The UK Government and EU should also re-evaluate the restrictions that limit education services and work towards facilitating professional mobility.
4. Pursuing mutual recognition agreements (MRAs) for professional qualifications may offer a quicker and more feasible approach to facilitate services trade in certain professions than fully-fledged trade agreements.
5. The UK Government should consider regulatory dialogue, concrete regulatory cooperation between agencies with comparable remits, and the use of MRAs with countries that have similar cultural and regulatory backgrounds and sectoral agreements (especially with the EU) as a way forward.
6. Rapid advances in technology as well as the rise in geopolitical frictions imply that the direction of travel is likely towards more regulation rather than less. Therefore, ensuring the coherence of trade policy and its implementation is critical, which entails consistency of provisions not only across the UK's many trade agreements but also with domestic policies that have clear trade implications, such as copyright regulation or AI governance.
7. To establish a coherent policy position across all trading partners, the UK Government should review key provisions in UK trade agreements (and DEAs) including (i) the

- provisions regarding free data flows and restrictions of data localisation requirements, (ii) restrictions of source code requirements, and (iii) national security exemptions
8. On the multilateral stage, the UK should provide international leadership in digital trade negotiations since digital trade influences all services sectors. In particular, extending the moratorium on imposing customs duties at the WTO should be set as a priority for businesses. These initiatives will help the UK fully exploit its comparative advantage in producing and exporting digitally deliverable services.
  9. Make efforts to improve the momentum of services trade negotiations. For example, establishing new plurilateral negotiations on cross-sectoral issues, such as trade facilitation (particularly logistics delivery), environment services and investment facilitation, could be considered.
  10. For the benefit of evidence-based policy advice, improve the quality of, and timely access to, sufficiently detailed services trade data for civil service analysts, academic researchers, and other stakeholders.
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## **SME export support and trade competitiveness**

*22 October 2024*

A joint CITP-CBI roundtable discussion was held to examine the challenges and opportunities facing UK businesses in international trade, with a particular focus on Small and Medium Enterprises (SMEs). The discussion covered various aspects of export support, regulatory challenges, and competitiveness issues in the context of changing global trade dynamics.

The discussion was wide-ranging but with some clear common themes and policy recommendations. This summary is not intended to suggest that there was a consensus of view, but provides an overview of the key issues raised, some large unanswered questions, and possible recommendations for inclusion in the UK Government's forthcoming trade strategy.

### **Introduction**

The roundtable highlighted that while international trade presents global challenges, many of the key issues facing UK businesses are domestic in nature. Participants emphasised the need to "get the plumbing right" at home to enable successful international trade. The discussion revealed that SMEs face disproportionate challenges compared to larger firms, particularly in navigating customs procedures, understanding trade agreements, and accessing appropriate finance for export activities.

The current global context, characterised by supply chain disruptions, geopolitical tensions, and increasing Environmental, Social, and Governance (ESG) requirements, is forcing businesses to adapt their models and strategies. These changes are occurring against a backdrop of regulatory divergence between the UK and EU, creating additional complexities for UK exporters. Participants stressed the importance of government support in addressing these challenges, particularly through improved information sharing, practical guidance, and targeted financial assistance.



## **SME challenges and support needs**

The discussion highlighted how SMEs face unique challenges that require tailored support approaches. Understanding customs procedures and border issues often involves large upfront fixed costs. Given the limited resources available to SMEs compared to larger companies, such barriers can be prohibitively expensive and deter SMEs from exporting at all.

Providing timely and complete information to SMEs on how to navigate the bureaucracy of exporting can be a key factor in allowing them to join international markets. Participants lamented that the information provided by government agencies dedicated to export support is often insufficiently detailed and with insufficient knowledge to meet the needs of SMEs. The discussion also emphasised that small businesses should not be treated as a homogeneous group, as they have varying levels of experience and capabilities.

Clear communication of export opportunities was presented as a potential key opportunity. Many SMEs struggle to understand how Free Trade Agreements (FTAs) work, let alone new requirements such as the EU Carbon Border Adjustment Mechanism (CBAM), which will require firms to declare the carbon content of their products. If such requirements are not clearly communicated, many British firms might not be able to access the EU market in 14 months' time, when CBAM will be implemented.

In addition, the modernisation of documentation and processes must be implemented with consideration for small businesses' capabilities and resources. Time constraints are often as significant as financial limitations for SMEs, making efficient and accessible support services crucial.

It was also noted that government guidance on how to deal with customs is often too vague to guarantee certainty for businesses to be compliant with regulations. Often, products are stopped at the border because regulations are subject to interpretation. Such uncertainty deters many SMEs from exporting.

## **Regulatory divergence between the UK and the EU**

Regulatory divergence between the UK and EU emerged as a significant concern, particularly regarding future challenges. The speakers recognised that, over time, divergence between the regulatory environment of the UK and the EU is more likely to increase than not. This will pose severe challenges to firms that will have to deal with different standards, which, in some cases, might conflict with each other.

Moreover, the Windsor Framework is expected to lead to increasing divergence between regulations applying to Northern Ireland and the rest of the UK. In the future, exporting from Great Britain to Northern Ireland might be more difficult, leaving the smallest nation of the country more isolated.

A key question discussed was whether the UK will align with the EU on the Carbon Border Adjustment Mechanism. At present, it is understood that the UK Government will implement an EU-style CBAM but with some divergences, posing uncertainty about whether the two systems will be compatible.

Other regulations relating to chemicals, machinery and other manufacturing products will create additional compliance requirements. Finally, it was noted that, while the UK could implement regulatory alignment with the EU, such alignment would be unilateral. A unilateral



alignment implemented by the UK only might help businesses importing from the EU but would be less beneficial to those who want to export to the EU.

### Global trade dynamics

In recent times, the global trading environment has been shaped by several key factors, including the COVID-19 pandemic, supply chain disruptions due to geopolitical events, increasing focus on resilience, and growing ESG requirements. Rising energy costs stemming from the Russian invasion of Ukraine were identified as a particular challenge still affecting production decisions and investment patterns across various sectors.

These changes are forcing businesses to modify their operational models and strategies. Such readjustments are costly, and they often involve large upfront costs which some firms might not be able to sustain.

### Government role and support

A shift was noted in the UK's trade strategy towards thematic rather than sector-based approaches. Participants emphasised the need for a comprehensive industrial strategy that includes investment strategies and encourages firms to adapt to global changes. The main points discussed involved:

- **Access to information:** There was consensus that better access to detailed, transparent trade and customs guidance is essential for small firms. Current government resources were seen as insufficient.
- **Regulatory alignment:** Divergence from EU standards, especially regarding the environment and sustainability, poses future challenges for UK exporters.
- **Government role:** The group discussed whether the government should intervene more actively to support businesses, particularly in addressing market failures where private decisions may not align with the broader social needs.

However, challenges remain in determining the most effective forms of intervention, particularly in balancing broad support against targeted assistance for specific companies or sectors.

The participants discussed the potential role of the Government in helping businesses to reorganise their activities in response to global challenges such as supply chain reorientation, pandemics and geopolitical events disrupting international trade.

On the one hand, firms that operate in free markets should understand how to deal with such challenges without public intervention. At the same time, firms are the ultimate drivers of economic growth, and the government might have an incentive to intervene. It was noted that government interventions should be limited to those instances in which the optimal decisions of businesses do not align with the optimum for society.

### Information and expertise sharing

Beyond official information provided by the Government, the importance of peer-to-peer information sharing emerged as a significant theme, with successful examples of businesses sharing expertise and experiences. This approach has proven particularly valuable for SMEs, though capacity constraints can limit their ability to fully engage. The need for clear, accessible government guidance was emphasized, particularly regarding regulatory requirements and compliance procedures.

## Recommendations

1. **Targeted support for SMEs:** Develop more tailored government interventions that understand the specific challenges SMEs face, with improved communication channels.
2. **Affordable advisory services:** Reintroduce or expand free consultancy services for customs procedures and trade regulations, particularly aimed at small businesses.
3. **Clearer information on exporting:** firms, and in particular SMEs, require more detailed and timely information on how to access Free Trade Agreements, how to navigate customs bureaucracy and certainty
4. **Clearer information on regulatory divergence:** Establish a central unit to provide timely, detailed information on the regulatory divergence between the UK and EU to help firms adapt.
5. **Export finance reforms:** Enhance financial support for export-driven companies, particularly those struggling with supply chain disruptions and high upfront costs.
6. **Adaptation to global challenges:** Encourage businesses to invest in long-term resilience by offering financial incentives and supporting adaptation to the changing global landscape (e.g., reshoring, new supply chains).
7. **Peer-to-peer events:** Create more events where firms can meet and discuss their experiences in international markets. Develop mechanisms to facilitate peer-to-peer learning and information sharing between businesses.

## Conclusions

The roundtable discussion highlighted the complex challenges facing UK businesses in international trade, particularly SMEs. While global factors play a significant role, many of the key issues require domestic solutions. Success will depend on effective collaboration between government and business, with particular attention to the practical needs of smaller enterprises. The changing global trade landscape demands adaptive and responsive support mechanisms that can help UK businesses maintain and enhance their international competitiveness.

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## The UK-EU Reset: What can be done on trade?

*2 December 2024*

### Background

Trade relations between the European Union (EU) and the United Kingdom (UK) have been governed by the Trade and Cooperation Agreement (TCA) since Brexit. However, nearly four years after Brexit, there remains an urgent need to reassess and recalibrate this relationship to address emerging challenges and evolving geopolitical dynamics. The new UK government has

expressed its desire to reset its relationship with the EU, recognising the long-term implications of Brexit on trade, security, and broader diplomatic ties. This reset presents an opportunity to address longstanding issues, reduce friction, and build a more stable and strategic relationship. However, it also requires navigating complex political, economic, and technical challenges. Ignacio Garcia Bercero's [policy paper](#) provides a foundation for this discussion highlighting three key areas that must be addressed as discussions proceed on what the reset might involve. It stresses the importance of rebuilding trust through practical, legally binding agreements, alongside addressing broader geopolitical concerns and enhanced regulatory cooperation. The policy brief suggests three key areas for legally binding agreements in the UK-EU reset: a veterinary standards agreement to facilitate trade in animal products, alignment of emissions trading systems (ETS) to reduce trade barriers related to carbon pricing, and agreements on mobility to enhance professional exchanges youth mobility and cultural exchanges. Negotiations on these agreements should also be coordinated with negotiations on energy and fisheries, where the TCA has established 2026 deadlines.

This roundtable examined key proposals for resetting UK-EU relations, gathering insights from a diverse range of stakeholders. The discussion assessed how these proposals could shape future trade relations and whether they can be realistically achieved given the current political and geopolitical context. By bringing together various perspectives, the roundtable aimed to shape a more informed approach to the future of UK-EU cooperation.

### **Regulatory alignment and trade policy**

One of the most pressing challenges discussed was the divergence in regulatory frameworks between the UK and the EU since Brexit. Participants noted that this divergence often arises not from intentional differences but from "passive regulatory divergence," where the UK fails to update its rules in line with EU changes. This gap creates substantial confusion for businesses, which are left to endure the costs of adhering to duplicated compliance requirements. For sectors like manufacturing, chemicals, and food, the lack of regulatory alignment results in increased costs, delays, and challenges in maintaining access to both UK and EU markets. For example, even when UK and EU rules remain substantively identical, the absence of formal agreements on mutual recognition forces businesses to undergo redundant conformity assessments, further adding to administrative burdens.

The discussions noted the importance of a veterinary or a sanitary and phytosanitary (SPS) agreement with the EU for the UK. An agreement on the lines of the EU-Switzerland veterinary agreement was mooted as an ideal model for the UK in discussions with the EU. However, participants highlighted the domestic political considerations of such an agreement. A "Swiss style" agreement would require the UK to actively follow EU regulations and the challenging nature of such a requirement. Participants also discussed whether the UK's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) could pose a challenge to a potential "Swiss style" veterinary agreement between the UK and the EU. Discussions noted the significant level of compatibility already existing between the UK and the EU in this area and stated that the specific details of any such agreement needed to be discussed in detail by the UK and the EU. It was underscored that a high level of ambition like the "Swiss style" veterinary agreement is likely to be necessary for any UK-EU agreement to be persuasive for the EU.

Beyond an SPS agreement, speakers proposed a framework for incremental alignment, whereby the UK should prioritise aligning its regulations with the EU in areas subject to technical updates

or where it has historically followed EU standards. For entirely new regulatory regimes—such as those addressing emerging technologies or climate policies—early and structured dialogue between the UK and EU could be critical to reducing friction and finding mutually beneficial pathways. It was emphasised that regulatory alignment would not only simplify trade but also build trust between the UK and EU, paving the way for future agreements. While politically challenging, this incremental approach was seen as the most realistic and achievable path forward, offering a foundation for deeper cooperation without requiring immediate, legally binding commitments.

### **Geopolitical imperatives**

Geopolitical considerations formed a central theme of the discussion, underscoring the urgency for the UK and the EU to realign amidst growing global challenges. Speakers stressed that the increasingly complex and volatile international environment—marked by tensions in transatlantic relations, competition with China, and the fallout from the war in Ukraine—makes closer UK-EU cooperation a strategic and economic necessity. However, this presents an opportunity for a UK-EU alignment not based only on trade but on shared values and goals in a multipolar world. A united approach to these challenges could strengthen the global positions of both the UK and the EU and ensure both parties remain competitive in an increasingly multipolar world.

One of the key arguments was that geopolitical pressures create opportunities for the UK-EU reset by reframing the relationship as a partnership in addressing shared challenges. For instance, coordinating on economic security, supply chain resilience, and defence industrial policy would benefit both sides, particularly as the UK becomes more involved in EU-led defence and energy initiatives. While this alignment could offer significant strategic advantages, participants acknowledged that progress would require high-level political engagement and sustained effort to overcome the lingering mistrust from past negotiations.

Discussants noted that it is essential to avoid collateral damage to either side when addressing geoeconomic tensions or sanctions. To mitigate such risks, coordinated policy discussions between the EU and the UK should be encouraged to minimise bilateral impacts. These efforts could build a political case for greater alignment, and a clear signal from the UK in this regard would likely be positively received by the EU.

### **Sector-specific challenges and opportunities**

Several specific sectors were identified as critical focal points for advancing the UK-EU relationship.

- a) Climate policy was seen as an important area for collaboration, with particular emphasis on linking the emissions trading systems (ETS) of both parties and ensuring alignment in carbon border adjustment mechanisms (CBAM). It was emphasised that if alignment is not achieved by the end of 2025, CBAM could disrupt UK-EU trade flows and increase costs for businesses, especially for small and medium-sized enterprises (SMEs). The effect of CBAM notification requirements and levy would pose a significant cost and barrier to trade for SMEs. The discussants highlighted the importance of cooperation and the economic argument for extending energy cooperation under the TCA beyond 2026. However, it was noted that discussions on energy under the TCA are likely to be linked to discussions on fisheries. The participants noted that the significant potential for mutual benefit on

cooperation in energy could be utilised. Such measures are essential to avoid trade disruptions, particularly for energy-intensive sectors that depend on clear, consistent policies. Beyond ETS and CBAM, there were calls to explore broader climate and energy agreements that could encompass renewable energy trading, electricity interconnectors, and joint efforts to decarbonise critical industries. The possibility of coupling climate and energy issues into a broader package or agreement was discussed. Failure to address these areas could lead to fragmented policies that disrupt trade and undermine efforts to achieve climate goals.

- b) Digital trade was also highlighted as a key area for innovation and modernisation. The UK's leadership in this field, exemplified by its adoption of the Electronic Trade Documents Act, positions it as a frontrunner in trade digitisation. Participants discussed the potential for the UK and the EU to collaborate on creating interoperable systems for digital trade processes, which would enhance supply chain efficiency and reduce bureaucratic hurdles. Such collaboration could help address the delays and costs associated with physical border checks, benefiting businesses on both sides.
- c) Mobility—particularly for business professionals and young people—emerged as another priority. While there is strong demand for frameworks to facilitate cross-border movement, progress in this area is hampered by political sensitivities, particularly in the UK, where mobility discussions risk being conflated with migration debates. This has created a perception that mobility agreements may be politically infeasible, despite their potential economic and cultural benefits. Participants suggested that framing mobility agreements as tools for fostering economic growth and business competitiveness could help depoliticise the issue and open avenues for negotiation.

### **Business challenges and needs**

The session underscored the significant challenges businesses face in adapting to the post-Brexit trade landscape. SMEs were identified as particularly vulnerable, as they lack the resources and infrastructure to navigate the complexities of customs processes, rules of origin, and regulatory divergence. Many SMEs have been forced to cease trading with the EU entirely, as the costs of compliance and delays outweigh the benefits. This retreat from EU markets represents a major loss for the UK economy and underscores the need for targeted support.

Larger companies, while better equipped to handle these challenges, have also experienced setbacks. For instance, firms in the chemical, food, and manufacturing sectors must comply with overlapping regulatory regimes, as the lack of mutual recognition agreements forces them to duplicate efforts to meet both UK and EU standards. This has led to delays, higher costs, and disruptions in supply chains. Participants stressed that creating a predictable and stable regulatory environment is essential for businesses to plan long-term investments and maintain competitiveness. Further, some participants underscored that regulatory alignment with the EU is meaningful only if it provides market access. Any alignment without market access would be unwelcome by some businesses as they would not see sufficient economic benefits.

### **Institutional framework and timing**

The discussion highlighted the importance of using existing institutional mechanisms to advance the UK-EU reset. While the UK-EU TCA offers a strong foundation for cooperation, its

potential has been underutilised. Many of the specialised committees established under the TCA have been slow to convene, and their work has been limited in scope. Speakers called for a more proactive approach to activating these committees and using them as platforms to address specific issues like regulatory alignment, customs facilitation, and professional mobility.

Timing emerged as a critical concern. With a political summit scheduled for Spring 2025, both sides face pressure to prepare substantive proposals and align their priorities. However, participants noted that the UK government's lack of a clear, cohesive strategy could hinder progress. Without a focused and realistic set of objectives, there is a risk that the summit could fail to produce meaningful outcomes. The EU's internal challenges, including elections and shifts in leadership, add another layer of complexity, underscoring the need for careful preparation and effective coordination. Participants highlighted that the UK should consider key areas of importance for it and engage proactively focusing on those key areas with the EU.

### **Recommendations**

- Addressing ETS and CBAM alignment was identified as a high-priority area, given its potential to mitigate economic disruptions and enhance environmental policy coherence. The UK and the EU should aim to align their ETS frameworks and engage in technical discussions to harmonise CBAM methodologies, including default values, to prevent duplicative reporting requirements and trade barriers.
- The UK should negotiate an ambitious veterinary agreement along the lines of the veterinary arrangement between the EU and Switzerland. This would have significant economic benefit for the parties involved but involves political risk. The level of ambition and regulatory compliance would need to be carefully prepared through discussions by both sides.
- Fully activate the specialised committees under the Trade and Cooperation Agreement (TCA) to facilitate technical discussions on key issues like customs facilitation, mobility, and regulatory alignment. Regular and meaningful engagement through these committees would maximise the TCA's potential and help address specific trade barriers. Civil society forums and business advisory groups should also be leveraged to ensure a comprehensive and inclusive approach to policy discussions.
- Before formal negotiations begin, conduct scoping exercises to align priorities and address potential mismatches between the objectives of the UK and EU. This process would help avoid misunderstandings and ensure negotiations are grounded in realistic and mutually beneficial goals.
- Develop targeted mobility frameworks for professionals and young people, ensuring these agreements are framed as economic initiatives rather than migration policies. Aligning business mobility arrangements with broader economic goals could foster trust and collaboration while addressing critical labour shortages in regulated sectors.
- Establish a structured framework to address passive regulatory divergence, ensuring the UK aligns its regulations with the EU on technical updates where feasible. This would prevent unnecessary trade frictions and provide businesses with greater predictability. For new regulatory regimes, initiate early discussions between both sides to minimise divergence and ensure mutual understanding. This approach could also pave the way for more ambitious, legally binding agreements in the future.



## Conclusion

The roundtable underscored the importance of recalibrating UK-EU trade relations to address challenges arising from regulatory divergence, geopolitical pressures, and the evolving global landscape. It emphasised practical steps like aligning broadly on energy, facilitating smoother trade, and fostering mobility frameworks to reduce trade disruptions, and promoting collaboration. Proactive collaboration and focused, pragmatic initiatives will be essential to unlocking shared opportunities, addressing challenges, and fostering a resilient and mutually beneficial UK-EU relationship.

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## What should the Labour Government prioritise on agri-food trade?

3 December 2024

### Summary

A roundtable discussion, prompted by the question "What should the Labour Government prioritise in agri-food trade?", was convened by the Centre for Inclusive Trade Policy to gather insights from experts and generate actionable recommendations for the new Labour Government, which took office in July. The discussion highlighted the growing domestic and international challenges facing the UK agri-food sector post-Brexit, including disruptions in EU-UK trade flows and increased fragmentation as regulatory powers shift to devolved nations. A major focus was the potential for an EU-UK Sanitary and Phytosanitary (SPS) agreement to streamline trade. While participants considered the EU-New Zealand model a feasible starting point, they cautioned that it may not fully address all sector challenges. Key recommendations for the UK Government include developing a dedicated agri-food strategy, enhancing food traceability through digitalisation, and adopting a more inclusive approach to devolved governance and stakeholder participation.

### Introduction

In July, the Labour Government assumed office in the UK, promising to implement a mission-driven approach to rebuild Britain, starting with initiatives to spur economic growth. As the new government begins outlining its next steps and priorities, the Centre for Inclusive Trade Policy convened a roundtable discussion, bringing together stakeholders and academics with expertise in agricultural trade, sustainable finance, food policy, and supply chain management. This roundtable aimed to foster an exchange of ideas on the question, "What should the Labour Government prioritise in agri-food trade?" with the ultimate goal of providing actionable recommendations to the government.

As a starting point for the discussion, Emily Lydgate, Deputy Director of the Centre for Inclusive Trade Policy and Professor of Environmental Law at the University of Sussex, along with Alex Carson-Taylor, FRGS, an Independent International Trade Specialist, prepared a briefing paper entitled "[An EU-UK SPS Agreement: The perils and possibilities of \(re\)alignment.](#)" This paper was circulated among the participants prior to the roundtable and presented at the beginning of the session. Following this, participants were invited to share their thoughts on the briefing and



contribute their perspectives on the broader question on what should be prioritised in the context of agri-food trade policy by the new UK government.

This document summarizes the four main points that emerged from the discussion.

### **Current state of the UK Agri-food sector**

Agriculture is an important sector of the UK economy, contributing 6.5% of GVA and employing 13% of the workforce in agri-food. It is also one of the sectors most deeply affected by Brexit, which has introduced significant trade barriers and caused an 18% decline in exports to the EU. Those in the Agri-food sector—spanning production to port operations—are now grappling with extensive paperwork, including over 156 new export health certificates, requiring stakeholders to acquire new skills to navigate the evolving trade dynamics.

While UK farmers face increasingly complex EU regulatory and border requirements, domestic border checks remain in disarray. The sector is also experiencing sweeping domestic subsidy reforms amid broader pressures on UK land use. These challenges are compounded by the impending implementation of new regulatory frameworks aimed at addressing societal concerns about environmental sustainability and animal welfare. These include carbon taxes on certain products and enhanced traceability requirements to prevent imports of products linked to deforestation.

Amid these shifts, the Labour Government has yet to announce the direction it plans to take for agricultural policy. This uncertainty undermines both short- and long-term planning for supply chain management and food security, leaving the sector in a precarious position. To make the situation worse, channels for stakeholder engagement are being modified, with the Trade Advisory Group being replaced by unspecified consultation arrangements. Some participants noted that, although the new government appears more open to stakeholder input, the lack of formal communication channels makes meaningful engagement challenging.

### **Domestic and international considerations for UK policy**

Following Brexit, UK agricultural policy has become increasingly fragmented due to the domestic context of devolved governance. Many aspects of agri-food policy fall under the jurisdiction of devolved nations, leading to divergent approaches across the UK. Northern Ireland faces unique challenges in harmonising with the rest of the UK due to its commitment to align with EU regulations under the Windsor Framework as a way to avoid a hard border with the Republic of Ireland. This divergence complicates trade and supply chain management, with some products required to carry "Not for EU" labels.

Some participants also highlighted that the appropriateness of the current "just-in-time" supply chain model for food is being questioned in light of rising geopolitical tensions and concerns about food shortages due to trade disruptions. In this context, a UK domestic policy focused on addressing obesity and other health issues within the food chain would fall short of the broader approaches to food safety and security adopted by other countries. For example, Sweden is passing a law that makes the 'right to be fed' a mandatory government responsibility as part of its Food Preparedness Strategy.

The UK has the potential to play a central role in global discussions on environmental protection, particularly regarding deforestation. The UK Forest Risk Commodity Regulation (UKFRC) restricts trade only on products from illegally deforested areas, while the EU Deforestation Regulation (EUDR) also targets legally deforested areas. The narrow approach

adopted by the UK is perceived by trade partners as being less intrusive to national sovereignty or internal matters, potentially leaving the UK in a better position to engage with Global South nations in an open and cooperative dialogue about effort to halt deforestation.

### **Prospects for an EU-UK SPS Agreement**

The new Free Trade Agreement between the EU and UK, the Trade and Cooperation Agreement (TCA), does not require the parties to recognise the equivalence of their Sanitary and Phytosanitary (SPS) standards. The Labour Government has announced its intention to negotiate an agri-food SPS with the EU to reduce border checks. However, details on the timeline and structure of these negotiations remain unclear.

Existing models of bilateral SPS agreements vary widely in terms of the level and type of border barriers they address. For example, the EU-Switzerland veterinary agreement removes virtually all border controls for animal and animal product trade, creating a common veterinary area. However, this broad regulatory equivalence is not typical of the EU's approach with third countries, where documents, identity checks, and physical inspections are commonly required for nearly all consignments. The agreement with New Zealand offers an intermediate model, with reduced physical checks and simplified certification for mutually agreed low-risk products.

The EU-New Zealand model would be easier to achieve but would not resolve the border issues facing UK agri-food exports. As highlighted by one participant, the SPS agreement in the style of the EU- New Zealand model uses the World Trade Organization definition of SPS, which limits the scope of subjects that can benefit from regulatory alignment. Issues such as animal welfare, deforestation, nutrition, and other quality-related matters are often considered Technical Barriers to Trade (TBT) measures rather than SPS measures.

Additionally, both the UK and EU will need to clarify their red lines before negotiations can begin. The Labour Government has reiterated in its manifesto its commitment to maintaining the 'red line' set out by the Conservative Party of not joining the EU Single Market as a condition for greater cross-border collaboration. Meanwhile, the EU has repeatedly stated during Brexit negotiations that its 'red line' for post-Brexit negotiation is the rejection of 'cherry-picking' or sector-specific areas for deep cooperation. Both sides would need to exhibit some flexibility with respect to their positions if fully frictionless trade in agri-food products between the EU and UK is to be achieved.

### **Political bravery**

There is an urgent need for political bravery to tackle head-on the challenges of ensuring the UK's agri-food sector is sustainable, resilient, and able to support economic growth, food security, and strong international relations. To begin, it is crucial for the new government to clarify how agri-food will feature in its broader growth strategy and self-sufficiency. Some participants emphasised the need for the government to acknowledge the sector's significance and address its unique and exceptional nature.

The current lack of a cohesive domestic strategy on agri-food weakens the UK's ability to leverage its trade policy on global issues like food security and sustainability. Political bravery will be needed to engage in tough conversations about land use and farm subsidy reforms to align goals across sectors, alongside addressing governance gaps and finding a balanced approach to devolved administrations, which must preserve local choices while harmonising policies for a fluid agri-food supply chain.

Trust must be regained, particularly with farmers, as the growing rural-urban divide continues to impact confidence in government policy. There is also a need to resolve enforcement tensions at UK borders due to disagreements over funding and responsibilities between Port Health Authorities and central government agencies like the Department for Environment, Food & Rural Affairs. These tensions, compounded by reduced operational capacity and inconsistent application of standards, are creating challenges for businesses to comply with trade requirements and eroding public trust.

### Recommendations for UK agri-food trade policy

- i. **Publish a dedicated agri-food strategy:** The current agricultural policy landscape is fragmented, with multiple departments, policies, and sectors. A clear agri-food strategy, aligned with the industrial and trade strategy is needed to integrate policy goals.
- ii. **Plan for food security:** To protect the UK from price volatility and shortages in the face of geopolitical tensions and climate disasters, a comprehensive framework for food security and resilience is needed. This framework should ensure that both civilians and military personnel are well-fed and prepared for crises.
- iii. **Embrace devolution and stakeholder consultation:** Devolution should be carefully considered, as top-down policies can lead to frustration and division. An inclusive approach that fosters consultation and outreach is crucial, as stakeholder engagement is key to creating a balanced and effective policy.
- iv. **Strengthen traceability and operational efficiency:** The UK must enhance its capacity for food traceability through digitalisation and improved interoperability. This will not only support compliance with safety and sustainability standards but also optimise port operations and contribute to policy goals, such as preventing deforestation-linked products from entering the agri-food chain.
- v. **Build global partnerships:** Under the previous Labour Government, the UK demonstrated leadership on global issues such as aid. Moving forward, there is an opportunity to partner with the EU and other nations on food security, climate change, and migration, creating a platform to address interconnected global challenges.